EB-2008-0106

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c.O.15, Sch. B;

AND IN THE MATTER OF a proceeding initiated by the Ontario Energy Board to determine methodologies for commodity pricing, load balancing, and cost allocation for natural gas distributors.

SUBMISSIONS OF THE

SCHOOL ENERGY COALITION

1. On May 29, 2008 the Board initiated a proceeding (the "QRAM Proceeding") to determine certain questions relating to commodity pricing and recovery of commodity costs by natural gas distributors. Evidence was filed by each of the three natural gas distributors, and by the Gas Marketers Group ("GMG") representing the private companies selling natural gas in the Ontario market. These are the submissions of the School Energy Coalition.

2. SEC has taken a limited role in the QRAM Proceeding, for two reasons. First, our review of the parties actively involved convinced us that a full debate on almost all of the issues was assured, and therefore a significant involvement by SEC might not add sufficient incremental value. Second, schools rarely use system gas, so the range of issues in this proceeding that would affect them is more limited.

3. Our focus has therefore been on two areas. Of primary importance is the allocation of costs between the commodity and other delivery charges, including the related issue of which distribution and load balancing costs are appropriately flow-through in nature. Of secondary importance is the impact of commodity pricing and recovery policies on the fluidity and viability of the Ontario natural gas market.

4. These submissions are organized to follow the Board-approved Issues List in this proceeding, although on a number of issues we have no submissions.

<u>Issue 1: Trigger Mechanism</u>

5. No submissions.

Issue 2: Price Adjustment Frequency and Forecast Periods

6. The various parties with specific interest in this area have proposed a number of results to the combined questions of price adjustments and recovery of differences (Issue #4). It would appear to us that there are five major candidate methodologies:

   a. The current Union QRAM approach.

   b. The current Enbridge QRAM approach.

   c. The original MRAM proposal of GMG.

   d. The revised MRAM proposal of GMG.

   e. A true-up system, in essence a retrospective MRAM.

7. Many parties have identified the obvious balancing of price signals and price volatility. Some parties have, during the course of the proceeding, sought to argue that there is some sort of mathematical optimum balancing. There is not. If market prices are volatile, achieving correct price signals involves signaling volatility. If market prices are not volatile, then no balancing of these two priorities is required.

8. It is submitted that the issue is not the optimum balancing on the basis of some statistical norm. It is, rather, the Board's determination of the maximum level of volatility appropriate for system gas customers to experience. That is entirely a policy issue based on customer impact analysis. Once that determination is made, the methodology that respects that maximum and provides the most immediate price signals should be selected.

9. We have no submissions on what that maximum level of volatility should be. Other parties will canvass that issue, and the Board already has extensive information on the impact of volatility on customer classes and sub-groups.

10. It would appear to us, though, that a monthly adjustment system, if made sufficiently mechanistic, and if stripped of the kind of contentious issues that have dogged the process in the past, could be cost-effective and timely. This is particularly true if some or all of the methodology selected by the Board going forward is a true-up of historical actuals rather than a rolling forecast.

11. We also note that we see no reason why this part of the methodology would be different for Union and Enbridge.

Issue 3: Reference Price

12. No submissions.

Issue 4: Deferral and Variance Accounts and Disposition Methodology

13. We have comments below on the allocation of commodity price changes to non-commodity accounts, and the appropriateness of a flow-through of operational commodity costs. In this section, we will limit our comments to the question of which of the Enbridge and Union cost recovery approaches is better.

14. It has always seemed strange to us that Enbridge would seek to recover costs that are calculated on a twelve month basis over shorter and shorter periods of time as the year progresses. In our view, the Union approach of recovering changes to commodity costs over the next twelve months, on a rolling basis, is to be preferred. Aside from the obvious symmetry of that approach, the fact that Enbridge has on several occasions in the past extended the recovery period beyond the rate year because of inappropriate bill impacts suggests that it is simply not a good approach.

Issue 5: Impact on Revenue Requirement

15. There are two parts to this question. First, to what extent if any should commodity price changes be reflected in distribution and load balancing charges? Second, if any such adjustments are appropriate, should they be made at the time of each QRAM, or annually, or at some other time or times?

16. SEC takes a somewhat different approach on the first part of this question, compared with most other parties. We start with a conceptual framework in which each gas distribution company essentially operates two businesses, and those two businesses should have two different business structures:

    a. ***The Distribution/Delivery Business.*** This is the business of ensuring that gas is delivered to end users at their point of use, and at the times they need it or contract for it. The load balancing aspects of this are sometimes offloaded to a greater or lesser extent to the customers, but the pipes business is in fact consistent for all customers. With few exceptions, the prices to be charged for this service should be based on a budget submitted for approval by the utility to the Board, which includes forecasts of all costs and a predetermined, formula-based profit component. This Board generally discourages flow-through of costs for this business. The profit includes compensation for both the expertise required to manage to the budget, and the risks involved in doing so.

    b. ***The Default Commodity Business.*** As a condition of their franchise, and without compensation, the utilities are required to carry on the business of procuring and then reselling the commodity to those users who do not buy it on the private market, i.e. the business of default supply. Because this is not a compensated activity, the Board seeks to ensure that it is a risk-free activity, and the most important aspect of this is a complete flow-through of the costs of the activity, including the market costs of the commodity and transportation.

17. In our submission, the flow-through nature of costs associated with system gas is obvious, but that flow-through justification should not be applied to commodity-related operational costs.

18. Where the utility has gas costs associated with their own use, for example, there is no apparent reason why that should not be a budgeted cost, and they should not manage to that budget the same as any other cost. It is part of a business for which they receive full compensation. They do not have to be held harmless. They should, instead, apply their admitted expertise to ensure that they manage to the budget they have forecast for this category of costs, the same as every other category.

19. Therefore, in our submission there should be no flow-through of commodity price changes to distribution charges.

20. With respect to load balancing, the situation is a little more complex. We agree that changes to the commodity and transportation costs during the year will affect the cost to provide load balancing services to those customers that need these services. An argument could be made that this should be forecast, and the price for load balancing services should reflect that forecast cost. In the alternative, changes to those costs during the year could be flowed through to load balancing costs, on the theory that those customers that do not want to take that risk can contract for load balancing services on the private market (when that level of unbundling is universally available) and thus control those costs directly.

21. In our submission, the better view is that, until there is a completely open market for load balancing services in the province, load balancing should be treated like any other part of the distribution business, and the costs – including gas inventory, upstream transportation, storage, etc. – should be forecast not adjusted during the year.

22. The second part of this question is how often changes should be reflected in non-commodity rates. If any part of distribution or delivery charges will be affected by changes in the reference price, this part of the question arises.

23. In our submission, it is in the interests of all parties to keep the periodic price adjustment proceedings (i.e. QRAMs or MRAMs) as simple and mechanistic as possible. Once distribution and load balancing adjustments are included in the proceeding, more customers and customer groups are affected, and more scrutiny of the adjustments will be required. On the other hand, if the adjustment is limited to keeping the commodity price as up to date as possible, the adjustment becomes pretty straightforward. Under the Enbridge approach, all

components of the customer bill can be affected with each adjustment. This would appear to us to be an unnecessary complication. If the Board continues the practice of allowing changes to the reference price to affect distribution or load balancing rates, then doing this on an annual basis, along with all other changes to those rates, seems to us to make more sense.

Issue #6: Standardizing Pricing Mechanisms

24. No submissions.

Issue #7: Filing Requirements

25. No submissions.

Issue #8: Load Balancing Obligations

26. SEC has had an opportunity to review in draft the submissions on this point by the Federation of Rental-housing Providers of Ontario. We support those submissions.

Issue #9: Cost Allocation

27. Please see our comments under Issue #5 above. We believe that the flow-through of commodity-related price changes to distribution and load balancing rates is inappropriate given the manner in which gas distribution utilities in Ontario carry out their businesses, and are compensated for expertise and risk. The need to hold the distribution companies harmless for price changes, readily apparent when it comes to the system gas business, is not applicable to distribution and load balancing activities.

28. We also note that the Federation of Rental-housing Providers of Ontario has, in their submissions, raised an interesting and important question of cross-subsidization of system gas customers by direct purchase customers. We believe the FRPO analysis is correct, and would ask that the Board make the appropriate adjustments, as proposed by FRPO, to rectify the situation.

Issue #10: Billing Terminology

29. No submissions.

Issue #11: Implementation Issues

30. No submissions.

Conclusion and Costs

31. We hope these submissions are of assistance to the Board. If the Board determines that any further process on these issues is required, SEC would like to continue to be involved.

32. It is submitted that the School Energy Coalition has participated reasonably in this process with a view to assisting the Board in developing new policies, while not investing more time or resources than is necessary. We therefore request that the Board order payment of our reasonably incurred costs of participation.

All of which is respectfully submitted on behalf of the School Energy Coalition on the 22nd day of May, 2009.

SHIBLEY RIGHTON LLP

Per: ______________________

Jay Shepherd